

GATLINBURG AIRPORT AUTHORITY, INC.
Sevierville, Tennessee

**FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND
OTHER REPORTS**

For the Years Ended June 30, 2017 and 2016

GATLINBURG AIRPORT AUTHORITY, INC.

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INTRODUCTORY INFORMATION

GATLINBURG AIRPORT AUTHORITY, INC.

**List of Appointed and Principal Officials
June 30, 2017 and 2016**

Appointed Officials

Chairman.....	Gary Kimble
Vice Chairman	Jerry McCarter
Secretary/Treasurer	Vic Barrett
Commissioner	Allen Newton
Commissioner	Lisa Reagan

Principal Official

Airport Manager	Emily Haun
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FINANCIAL INFORMATION

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Certified Public Accountants
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INDEPENDENT ACCOUNTANT'S AUDIT REPORT

To the Board of Directors of
Gatlinburg Airport Authority, Inc.
Sevierville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Gatlinburg Airport Authority, Inc., which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Gatlinburg Airport Authority, Inc. as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 9 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audits the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal and state awards is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2017 on our consideration of Gatlinburg Airport Authority, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gatlinburg Airport Authority, Inc.'s internal control over financial reporting and compliance.

Hughes + Durrell CPAs

September 30, 2017

Management's Discussion and Analysis

As management of the Gatlinburg Airport Authority, Inc., ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2017 and 2016.

Financial Highlights

The assets of the Authority exceeded its liabilities at June 30, 2017 and 2016 by \$16,767,544 and \$16,785,584, respectively. Of this net position amount, \$390,022 and \$296,582 are unrestricted and may be used for any lawful purpose of the Authority.

The Authority's overall financial position decreased in 2017, with net position decreasing by \$18,040 in funds.

Capital assets increased by approximately \$296,461 in 2017 and \$704,837 in 2016 as a result of land and land easement acquisitions and expenditures for land improvements during the year, and construction of a new terminal building. All were financed with grant funds.

The Authority's bank debt decreased by \$2,341,024 (100%) in 2016 due to payments on outstanding debts.

On November 24, 2015 the note payable was changed to a bond payable with interest rate of 2.350%. The bond payable was decreased by \$168,233 (7.5%) in 2017 and \$88,734 (4%) in 2016.

Capital contributions grant revenue decreased by approximately \$409,109 in 2017 and increased \$160,856 in 2016 as a result of the Authority being awarded and expending grant funds to obtain land and land easements and construct land improvements, and a new terminal.

Fuel and oil sales increased approximately \$107,434 in 2017 and decreased \$38,176 in 2016; however, the gross profit margin on the sale of fuel and oil decreased approximately .1% in 2017 and increased by 8.5% in 2016 due to changing fuel costs.

The Authority's operating loss decreased by approximately \$49,593 (10%) in 2017 and decreased by \$29,068 (6%) in 2016.

Overview of the Financial Statements

This narrative discussion and analysis is intended to serve as an introduction to the Authority's financial statements for the fiscal years ended June 30, 2017 and 2016. The information presented here should be read in conjunction with the financial statements, footnotes, and supplementary information found in this report.

The Authority is structured as an enterprise fund. The financial statements are prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenses are recognized when incurred. Capital assets are capitalized and depreciated, except land, over their useful lives. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following this management's discussion and analysis are the financial statements of the Authority. The information, taken collectively, is designed to provide readers with an understanding of the Authority's finances.

The Statements of Net Position presents information on all of the Authority's assets, liabilities, and net position. Over time, increases or decreases in net position may serve as useful indicators of the Authority's financial position.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the Authority's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that result in cash flows in other fiscal periods.

The Statements of Cash Flows related to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash and cash equivalents accounts are recorded in these statements. A reconciliation follows the Statements of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income or loss.

Financial Position

Current assets increased by approximately \$147,365 (4.37%) in 2017 and increased by approximately \$53,921 (19%) in 2016. Cash increased by \$105,448 in 2017 and \$106,795 in 2016 due to the timing of collections and payments of various receivables and payables.

Restricted assets increased by approximately \$23,643 in 2017 and decreased by \$16,930 in 2016.

Net capital assets decreased by \$135,123 in 2017 and increased \$242,837 in 2016, which is explained further on page 9.

Current liabilities increased by approximately \$44,543 in 2017 and increased by \$897 in 2016. Accounts payable and accrued expenses increased by approximately \$55,067 in 2017 and increased by \$359 in 2016 due to the timing of payment and an increase in accrued interest expense. Note payable was lower by \$2,341,024 in 2016. Note payable was paid off in 2016 and replaced by a bond payable. This bond payable was reduced by \$168,233 in 2017.

The largest portion of the Authority's net position, \$16,300,908 (97%) in 2017 and \$16,436,031 (98%) in 2016, represents its investment in capital assets (e.g. land, buildings, airport improvements, and equipment) less any related outstanding debt used to acquire those assets. The Authority uses these assets to provide services to its passengers, visitors, and tenants of the airport; consequently, these assets are not available for future spending. Although the

Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Authority's net position \$76,614 (.4%) for 2017 and \$52,971 (.3%) in 2016 represents resources that are subject to restrictions on how they may be used. The remaining balances of \$390,022 (2.3%) in 2017 and \$296,582 (1.7%) in 2016, representing unrestricted net position, may be used for any lawful purpose of the Authority.

	<u>2017</u>	<u>2016</u>	<u>Increase/ <Decrease></u>	<u>Percentage Change</u>
ASSETS				
Current Assets	\$ 484,901	\$ 337,536	\$ 147,365	43.7%
Restricted Assets	76,614	52,971	23,643	44.6%
Net Capital Assets	<u>18,346,301</u>	<u>18,649,628</u>	<u><303,327></u>	<u><1.6>%</u>
Total Assets	<u>\$ 18,907,816</u>	<u>\$ 19,040,135</u>	<u>\$ <132,319></u>	<u><.7>%</u>
LIABILITIES AND NET POSITION				
Current Liabilities	\$ 240,548	\$ 196,005	\$ 44,543	22.7%
Long-term Debt/Bond	<u>1,899,724</u>	<u>2,058,546</u>	<u><158,822></u>	<u><7.71>%</u>
Net Position:				
Net Investment in Capital				
Assets	16,300,908	16,436,031	<135,123>	<.8>%
Restricted	76,614	52,971	23,643	44.6%
Unrestricted	<u>390,022</u>	<u>296,582</u>	<u>93,440</u>	<u>31.5%</u>
Total Net Position	<u>16,767,544</u>	<u>16,785,584</u>	<u><18,040></u>	<u><.1>%</u>
Total Liabilities and Net Position	<u>\$ 18,907,816</u>	<u>\$ 19,040,135</u>	<u>\$ <132,319></u>	<u><.7>%</u>

Revenues

Sales of fuel and aircraft storage are the major sources of operating revenue for the Authority. Fuel sales revenue increased by approximately \$107,434 in 2017 and decreased \$38,176 in 2016 due to changing market cost of petroleum products. Aircraft storage revenue increased by 10% in 2017, and increased 16% in 2016 due to more traffic and additional customers based at the airport.

Other sales and miscellaneous income increased \$18,838 in 2017 and decreased \$7,268 in 2016.

Non-operating revenues consist mainly of contributions from the Cities of Gatlinburg and Pigeon Forge. The Cities made contributions of \$100,000 each to the Authority in 2017 and \$100,000 in 2016 to be used for the operating, maintenance, and improvements to the Airport. Interest income increased by approximately \$274 in 2017 and increased \$89 in 2016.

Capital contributions grant revenue, which decreased by approximately \$409,109 in 2017 and increased \$160,856 in 2016, relates to grants from the Tennessee Department of Transportation, which are primarily restricted for the purchase of real estate and the construction of land improvements.

Revenues by Major Source

	<u>2017</u>	<u>2016</u>	<u>Increase <Decrease></u>	<u>Percentage Change</u>
OPERATING REVENUES				
Fuel and Oil	\$ 798,871	\$ 691,437	\$ 107,434	15.5%
Aircraft Storage	235,030	213,086	21,944	10.3%
Other Sales	<u>64,299</u>	<u>45,461</u>	<u>18,838</u>	<u>41.4%</u>
Total Operating Revenues	<u>\$ 1,098,200</u>	<u>\$ 949,984</u>	<u>\$ 148,216</u>	<u>15.6%</u>
NON-OPERATING REVENUES				
Interest Income	\$ 621	\$ 347	\$ 274	79%
Financial Assistance from Local Government Entities:				
Contributions	<u>200,000</u>	<u>200,000</u>	<u>0</u>	<u>0%</u>
Total Non-operating Revenues	<u>\$ 200,621</u>	<u>\$ 200,347</u>	<u>\$ 274</u>	<u>1.3%</u>
CAPITAL CONTRIBUTIONS GRANT REVENUE				
	<u>\$ 283,400</u>	<u>\$ 692,509</u>	<u>\$ <409,109></u>	<u><59>%</u>

Expenses

Operating expenses had a net increase of approximately \$98,623 (6.8%) in 2017 and a net decrease of \$30,357 (7%) in 2016 when compared to the previous year. Fuel cost accounts for approximately \$63,802 in 2017 and \$85,910 in 2016 of this net increase, which is due to the rising market costs of petroleum products and the volume of customers. All other operating expenses increased by a net of approximately \$34,821 in 2017 and \$27,916 in 2016. Significant increases included salaries expense of approximately \$10,879 in 2017 and decreases of \$498 in 2016. Also, there is an increase in depreciation expense of approximately \$10,361 in 2017 and a decrease of \$27,394 in 2016, which relates to the timing in the depreciation calculations. Repairs and maintenance expenses increased \$12,619 in 2017 and increased \$816 in 2016.

Non-operating expense consists of interest expense. Interest expense decreased \$23,212 in 2017 and decreased \$30,537 in 2016. The Authority's interest expense fluctuates with changes in outstanding principle balances and changes in the interest rate environment. The Authority's outstanding borrowing balance decreased by approximately \$168,288 during 2017 and decreased \$116,486 in 2016.

OPERATING EXPENSES	<u>2017</u>	<u>2016</u>	<u>Increase <Decrease></u>	<u>Percentage Change</u>
Fuel and Oil Purchases				
Cost of Sales	\$ 479,737	\$ 415,935	\$ 63,802	15.3%
Pilot Supplies	303	908	<605>	<66.6>%
Depreciation	599,788	589,427	10,361	1.7%
Insurance	76,616	71,874	4,742	6.6%
Supplies, Postage, Miscellaneous Expenses	24,350	22,946	1,404	6.1%
Payroll Taxes	13,609	15,010	<1,401>	<9.3>%
Professional Fees	15,949	32,722	<16,773>	<51.3>%
Vehicle Rent	13,637	12,000	1,637	13.6%
Repairs and Maintenance	50,275	37,656	12,619	33.5%
Retirement	13,916	11,602	2,314	20%
Salaries	203,611	192,732	10,879	5.6 %
Travel, Meals, and Conventions	1,318	2,094	<776>	<37>%
Utilities and Telephone	45,501	40,788	4,713	11.5%
Bad Debts	<u>5,707</u>	<u>0</u>	<u>5,707</u>	<u>100%</u>
Total Operating Expenses	<u>\$ 1,544,317</u>	<u>\$ 1,445,694</u>	<u>\$ 98,623</u>	<u>6.8%</u>
NON-OPERATING EXPENSE				
Interest	<u>\$ 55,944</u>	<u>\$ 79,156</u>	<u>\$ <23,212></u>	<u><29.3>%</u>

Summary of Changes in Net Position

Operating loss decreased \$49,593 (10%) in 2017 and decreased \$29,068 (5.6%) in 2016 when compared to the prior fiscal year. This was due to a general increase in fuel sales and increases in some expenses. Capital contributions grant revenue, which increased \$409,109 (59%) in 2017 and increased \$160,856 (30%) in 2016, consists of grants that are mainly restricted for the purchase of real estate and runway improvements and a new terminal. The volume of grant activity is not necessarily consistent each year, and large fluctuations in the amounts are not unusual.

	<u>2017</u>	<u>2016</u>	<u>Increase <Decrease></u>	<u>Percent Change</u>
Operating Revenue	\$ 1,098,200	\$ 949,984	\$ 148,216	15.6%
Operating Expenses	<u>1,544,317</u>	<u>1,445,694</u>	<u>98,623</u>	<u>7%</u>
Operating Loss	<446,117>	<495,710>	<49,593>	<10>%
Non-operating Revenue	200,621	200,347	274	1.3%
Non-operating Expense	<55,944>	<79,156>	<23,212>	<29.3>%
Capital Contributions	<u>283,400</u>	<u>692,509</u>	<u><409,109></u>	<u><59>%</u>
Increase <Decrease> in Net Position	<u>\$ 18,040</u>	<u>\$ 317,990</u>	<u>\$ <299,950></u>	<u><94>%</u>

Capital Assets

The Authority's investments in capital assets are shown in the following table.

	<u>2017</u>	<u>2016</u>	<u>Increase <Decrease></u>	<u>Percent Change</u>
Land and Land Easements	\$ 7,506,557	\$ 7,387,749	\$ 118,808	1.6%
Non-depreciable Land				
Improvements	6,980,540	6,818,022	162,518	2.38%
Runway and Taxiway Improvements	5,769,599	5,754,464	15,135	2.63%
Leasehold Improvements	3,974,315	3,974,315	0	0%
Furniture, Fixtures and Equipment	199,845	199,845	0	0%
Terminal	1,876,400	1,876,400	0	0%
Less Accumulated Depreciation	<u><7,960,955></u>	<u><7,361,167></u>	<u><599,788></u>	<u><8.14>%</u>
Net Capital Assets	<u>\$ 18,346,301</u>	<u>\$ 18,649,628</u>	<u>\$ <303,327></u>	<u><1.62>%</u>

Net capital assets decreased by \$135,123 in 2017 and increased \$115,410 in 2016. The change is primarily due to completion of land, terminal, and runway improvement projects for approximately \$296,461 in 2017 and \$704,837 in 2016 and a charge of approximately \$599,788 in 2017 and \$589,427 in 2016 to accumulated depreciation.

Debt Activity

On May 30, 2012 all notes were combined, with a balance of \$2,689,000. Payments beginning July 13, 2012 through December 13, 2013 of \$9,666 per month with interest of 4.5%; the unpaid balance due on January 13, 2019. On November 24, 2015 the note payable was changed to a bond payable with an interest rate of 2.35%.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information should be addressed to the Gatlinburg Airport Authority, Inc., 134 Air Museum Way, Sevierville, Tennessee 37862.

Future Outlook and Accomplishments

We have completed our new terminal building and we encourage everyone to stop by and visit. We are now in the process of a hill removal project at the end of the runway, which should be complete soon.

BASIC FINANCIAL STATEMENTS

GATLINBURG AIRPORT AUTHORITY, INC.

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and Cash Equivalents	\$ 359,984	\$ 254,536
Receivables	24,660	12,844
Employee Receivables	0	165
Inventories	76,097	45,947
Prepaid Items	24,160	24,044
Total Current Assets	<u>484,901</u>	<u>337,536</u>
Non-current Assets		
Restricted Assets		
Receivables	54,726	1,256
Deposits Held by the State for Capital Improvements	21,888	51,715
Total Restricted Assets	<u>76,614</u>	<u>52,971</u>
Capital Assets		
Land and Land Easements	7,506,557	7,387,749
Non-depreciable Land Improvements	6,980,540	6,818,022
Runway and Taxiway Improvements	5,769,599	5,754,464
Leasehold Improvements	3,974,315	3,974,315
Furniture, Fixtures, and Equipment	199,845	199,845
Terminal	1,876,400	1,876,400
Less Accumulated Depreciation	(7,960,955)	(7,361,167)
Net Capital Assets	<u>18,346,301</u>	<u>18,649,628</u>
Total Non-current Assets	<u>18,422,915</u>	<u>18,702,599</u>
Total Assets	<u>\$ 18,907,816</u>	<u>\$ 19,040,135</u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 94,879	\$ 39,812
Customer Deposits	0	1,113
Bond Payable - Bank (Current)	145,669	155,080
Total Current Liabilities	<u>240,548</u>	<u>196,005</u>
Long-term Liabilities		
Bond Payable - Bank	1,899,724	2,058,546
Total Liabilities	<u>2,140,272</u>	<u>2,254,551</u>
Net Position		
Net Investment in Capital Assets	16,300,908	16,436,031
Restricted	76,614	52,971
Unrestricted	390,222	296,582
Total Net Position	<u>16,767,544</u>	<u>16,785,584</u>
Total Liabilities and Net Position	<u>\$ 18,907,816</u>	<u>\$ 19,040,135</u>

See notes to financial statements.

GATLINBURG AIRPORT AUTHORITY, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Fuel and Oil	\$ 798,871	\$ 691,437
Aircraft Storage	235,030	213,086
Other Sales and Miscellaneous Income	64,299	45,461
Total Operating Revenues	<u>1,098,200</u>	<u>949,984</u>
OPERATING EXPENSES		
Fuel and Oil Purchases - Cost of Sales	479,737	415,935
Pilot Supplies	303	908
Depreciation	599,788	589,427
Insurance	76,616	71,874
Supplies, Postage and Miscellaneous Expenses	24,350	22,946
Payroll Taxes	13,609	15,010
Professional Fees	15,949	32,722
Vehicle Rent	13,637	12,000
Repairs and Maintenance	50,275	37,656
Retirement Plan	13,916	11,602
Salaries	203,611	192,732
Travel, Meals, and Conventions	1,318	2,094
Utilities and Telephone	45,501	40,788
Bad Debts	5,707	0
Total Operating Expenses	<u>1,544,317</u>	<u>1,445,694</u>
Operating Loss	<u>(446,117)</u>	<u>(495,710)</u>
NON-OPERATING REVENUES (EXPENSE)		
Interest Income	621	347
Interest Expense	(55,944)	(79,156)
Financial Assistance from Government Entities		
Contributions	<u>200,000</u>	<u>200,000</u>
Total Non-operating Revenues	<u>144,677</u>	<u>121,191</u>
Loss Before Capital Contributions Grant Revenue	(301,440)	(374,519)
Capital Contributions Grant Revenue	<u>283,400</u>	<u>692,509</u>
Change in Net Position	(18,040)	317,990
Net Position - Beginning of Year	<u>16,785,584</u>	<u>16,467,594</u>
Net Position - End of Year	<u>\$ 16,767,544</u>	<u>\$ 16,785,584</u>

See notes to financial statements.

GATLINBURG AIRPORT AUTHORITY, INC.**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 1,086,384	\$ 964,908
Cash Paid to or on Behalf of Employees	(231,136)	(219,344)
Cash Paid to Suppliers	(689,540)	(637,164)
Net Cash Provided by <Used in> Operating Activities	<u>165,708</u>	<u>108,400</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions From Local Government Entities	200,000	200,000
Capital Contributions Grant Revenue	283,400	692,509
Purchases of Capital Assets	(296,461)	(704,837)
Payment on Notes Payable	0	(2,341,024)
Payment on Bond Payable	(168,233)	(88,734)
Receipts From Bond Issue	0	2,302,360
Payment on Deposit Held by State for Capital Improvements	(8,678)	(34,235)
Receipt of Deposit Held by State for Capital Improvements	38,505	53,383
Payment to State Restricted Receivables	(53,470)	(2,218)
Interest Payments on Notes Payable/Bond Payable	(55,944)	(79,156)
Net Cash Proved by <Used in> Financing Activities	<u>(60,881)</u>	<u>(1,952)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Proceeds From Interest Earnings	<u>621</u>	<u>347</u>
NET INCREASE <DECREASE> IN CASH AND CASH EQUIVALENTS	105,448	106,795
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>254,536</u>	<u>147,741</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 359,984</u>	<u>\$ 254,536</u>
Reconciliation of Loss From Operations to Net Cash Provided by <Used in> Operating Activities		
Loss From Operations	<u>\$ (446,117)</u>	<u>\$ (495,710)</u>
Adjustments to Reconcile Loss From Operations to Net Cash Provided by <Used in> Operating Activities		
Depreciation	599,788	589,427
<Increase> Decrease in		
Receivables - Customers	(11,816)	14,924
Employee Receivables	165	(165)
Inventories	(30,150)	39,950
Prepaid Items	(116)	(1,835)
Increase <Decrease> in		
Accounts Payable and Accrued Expenses	55,067	359
Customer Deposits	(1,113)	(38,550)
Total Adjustments	<u>611,825</u>	<u>604,110</u>
Net Cash Provided by Operating Activities	<u>\$ 165,708</u>	<u>\$ 108,400</u>

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Gatlinburg City Commission of Gatlinburg, Tennessee, duly organized and existing under the laws of the State of Tennessee, created the Gatlinburg Airport Authority, Inc. (“Authority”) to operate a public municipal airport pursuant to Tennessee Code Annotated, Section 42-3-101, et seq. The Airport is commonly known as the Gatlinburg – Pigeon Forge Airport. The Cities of Gatlinburg and Pigeon Forge each have equal representation of two members each on the Board of the Authority. The two members representing each City are nominated by the respective City Manager, and the remaining fifth member of the Board is a representative of the Sevier County industrial community chosen by consultation between the respective Cities. All members of the Board of Commissioners of the Authority shall be considered for appointment by the Gatlinburg Board of Commissioners and appointed by a majority vote thereof.

The Cities have agreed that they will make equal annual payment to the Authority to be used for the operation, maintenance, and improvements to the airport.

The Authority’s primary operating revenue source is the sale of fuel and oil, which is obtained primarily from one distributor with whom the Authority has a contractual agreement.

Significant accounting policies are:

Basis of Presentation

The accounting and reporting policies of the Authority relating to the accounts included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). All applicable GASB Statements have been implemented. GASB Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of investment in capital assets. Rather, that portion of the debt is included in the same net positions component as the unspent proceeds.

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Restricted Net Position – This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – The component of net investment consists of net position that do not meet the definition of “restricted” or “capital assets.” This net position is available for current use by the board.

The Authority has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* as of July 1, 2004. This new standard establishes and modifies disclosure requirements related to deposit risk (custodial credit and foreign currency risks) and investment risk (credit, interest rate, and foreign currency risks).

Fund Structure - The accounts of the Gatlinburg Airport Authority, Inc. are organized on the basis of a proprietary fund type. There are two types of proprietary funds: enterprise funds and internal service funds. The Authority is an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The operation of the fund is accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, and revenues and expenses, as appropriate. Government resources are allocated to and accounted for in the fund based on the purposes for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting – The basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made, regardless of the measurement focus applied. The proprietary fund is accounted for using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Measurement Focus – Proprietary funds use the economic resources measurement focus. This measurement focus aims to report all inflows, outflows and balances affecting or reflecting the Authority’s net position.

Financial Statement Presentation – Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Authority is the sale of airplane fuel. The Authority also recognizes as operating revenue rent from various tenants and other related services. Operating expenses for the Authority include cost of sales,

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

general and administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Restricted Assets – When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Estimates

Management makes estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

Trade accounts receivable are uncollateralized customer obligations due under normal trade terms stated at the amount billed to the customer. Interest receivable consists of interest earned on eminent domain case deposits held by the Court and other bank deposits. Grants receivable consist of amounts due from the State of Tennessee for the reimbursement of expenditures in accordance with the applicable grant agreements.

The Authority uses the direct write-off method to record bad debts. The write-off for June 30, 2017 was \$5,707 and \$0 for June 30, 2016.

Inventories

Inventories, consisting primarily of fuel, are valued at the lower of cost (first-in, first-out method, or market.

Capital Assets

Capital assets are stated at cost. Depreciation is computed using the straight-line method and is based on estimated lives of three to 40 years.

Compensated Absences

It is the Authority's policy that unused vacation and sick time are lost at the end of each fiscal year. Therefore, no compensated absences are accrued in the financial statements.

Income Tax Status

No provision has been made for income taxes as the Authority is a governmental entity and as such is exempt from income taxes.

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Grant Revenue and Contract Support

The Authority receives non-capital related grants and other support from federal, state, and local government entities, which is recorded as non-operating revenues in the statement of Revenues, Expenses and Changes in Net Position.

Capital Contributions Grant Revenue

The Authority receives grants from state and local governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of the airport's facilities and equipment. Capital grants of the Authority are reported as revenue, as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

Advertising

Advertising costs are expensed as incurred.

NOTE 2 – CASH AND CASH EQUIVALENTS

Deposits and Investments

Gatlinburg Airport Authority, Inc. had no investments for the fiscal years ended June 30, 2017 and 2016.

Custodial Credit Risk

The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by Federal Depository Insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority's agent in the Authority's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Authority to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2017 and 2016, all bank deposits were fully collateralized or insured.

NOTE 3 – RECEIVABLES

	<u>2017</u>	<u>2016</u>
Current Receivables		
Trade Accounts	\$ 30,367	\$ 12,844
Restricted Receivables		
Grants	<u>54,726</u>	<u>1,256</u>
Total Current and Restricted Receivables	<u>\$ 85,093</u>	<u>\$ 14,100</u>

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 – DEPOSITS HELD BY THE STATE FOR CAPITAL IMPROVEMENTS

With a few exceptions, the money received from the Department of Transportation requires that the Authority will fund 5% of the project. The 5%, and in some cases 25%, is sent to the State of Tennessee and is returned to the Authority as draws are made on the grants.

The deposits held by the state are summarized as follows:

	<u>2017</u>	<u>2016</u>
Papi	\$ 43	\$ 43
Drainage Repair	2,364	0
Hill Removal	1,682	3,180
Community Hanger	7,943	8,280
Pavement Repair	0	16,807
Tree Topping	1,186	223
Hanger Apron	0	<954>
Med Trans Hangar	47	47
Security	11	11
Terminal Construction	1,837	1,837
Land Acquisition for Runway	625	8,020
Crack, Seal, and Marking	1,721	6,371
ALP	4,079	7,500
Hanger Purchase	<u>350</u>	<u>350</u>
	<u>\$ 21,888</u>	<u>\$ 51,715</u>

NOTE 5 – CAPITAL ASSETS

	<i>Balance</i> <u>July 1, 2016</u>	<i>Additions</i>	<i>Deletions</i>	<i>Balance</i> <u>June 30, 2017</u>
Capital Assets Not Being Depreciated				
Land and Land Easements	\$ 7,387,749	\$ 118,808	\$ 0	\$ 7,506,557
Non-depreciable Land Improvements	<u>6,818,022</u>	<u>162,518</u>	<u>0</u>	<u>6,980,540</u>
 Total Capital Assets Not Being Depreciated	 <u>14,205,771</u>	 <u>281,326</u>	 <u>0</u>	 <u>14,487,097</u>
Capital Assets Being Depreciated				
Runway and Taxiway Improvements	5,754,464	15,135	0	5,769,599
Leasehold Improvements	3,974,315	0	0	3,974,315
Equipment, Furniture and Fixtures	199,845	0	0	199,845
New Terminal	<u>1,876,400</u>	<u>0</u>	<u>0</u>	<u>1,876,400</u>
 Capital Assets Depreciated	 <u>11,805,024</u>	 <u>15,135</u>	 <u>0</u>	 <u>11,820,159</u>

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

(Note 5 – Capital Assets, continued)

Less Accumulated Depreciation

Runway and Taxiway Improvements	<4,564,868>	<321,849>	0	<4,886,717>
Leasehold Improvements	<1,969,717>	<180,519>	0	<2,150,236>
Equipment, Furniture and Fixtures	<185,445>	<3,600>	0	<189,045>
New Terminal	<u><641,137></u>	<u><93,820></u>	<u>0</u>	<u><734,957></u>
 Total Accumulated Depreciation	 <u><7,361,167></u>	 <u><599,788></u>	 <u>0</u>	 <u><7,960,955></u>
 Net Capital Assets Being Depreciated	 <u>4,443,857</u>	 <u><584,653></u>	 <u>0</u>	 <u>3,859,204</u>
 Net Capital Assets	 <u>\$ 18,649,628</u>	 <u>\$ <303,327></u>	 <u>\$ 0</u>	 <u>\$18,346,301</u>

NOTE 6 – AIRPORT REVENUE BOND, SERIES 2015

An Airport Revenue Bond was issued on November 24, 2015 for \$2,302,360 to replace the previous note payable. The final maturity date of the bond is November 24, 2028. The payment amount is \$17,178.30 monthly, which includes interest at the rate of 2.350%. This payment is paid through the same bank as the original note.

	<u>2017</u>	<u>2016</u>
Airport Revenue Bond, Series 2015	\$2,045,393	\$2,213,626
Less Due Currently	<u>145,669</u>	<u>155,080</u>
	<u>\$1,899,724</u>	<u>\$2,058,546</u>

Maturities of principal are as follows:

	<u>2017</u>	<u>2016</u>
June 30, 2017	\$ 0	\$ 155,080
June 30, 2018	145,669	158,816
June 30, 2019	162,641	162,641
June 30, 2020	166,452	166,452
June 30, 2021	172,616	172,616
June 30, 2022 and thereafter	<u>1,398,015</u>	<u>1,398,021</u>
	<u>\$2,045,393</u>	<u>\$2,213,626</u>

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 7 – LEASE OBLIGATIONS

Equipment

The Authority was leasing its fuel truck equipment with monthly payments of \$1,500, which was reduced to \$1,000 in October 2011. The initial lease term for the fuel truck equipment expired in May 2005. The Authority has continued to lease this equipment on a month-to-month basis as permissible in the lease agreement. The lease is cancelable under the terms of the agreement and is classified as an operating lease. Rental expense was \$12,000 in 2017 and \$12,000 in 2016.

Land and Building

The Gatlinburg Airport Authority, Inc. leases the land, including the hangar and operations building from which it operates, from the Sevier County Airport Authority. The lease, which was originally entered into in 1982 for a twenty-year period, has been extended to February 11, 2032.

The Gatlinburg Airport Authority, Inc. has the right to erect buildings or structures upon the leased premises; however, at the termination of the lease these structures shall become the property of the Sevier County Airport Authority. Various amendments have been made to the lease to include additional real property.

The lease states that in recognition of the substantial repairs, revisions and other constructions, which the Gatlinburg Airport Authority, Inc. intends to make, there would be no rental payments due. It further states that in the event that the Gatlinburg Airport Authority, Inc. has a net profit, it shall be reinvested into the operations of or improvements to the Airport.

NOTE 8 – LEASE INCOME AND RELATED AGREEMENTS

The Authority leases approximately 41 airplane hangar and tie-down spaces to various individuals and entities. The lease amounts range from approximately \$400 up to \$12,000 annually with terms from month-to-month to 20 years with an additional ten-year option. This lease revenue is shown on the statements of revenues, expenses, and changes in net position as aircraft storage. According to the terms of the hangar leases, all improvements constructed by the lessees become the property of the Authority at the termination of the lease(s).

The Authority is leasing approximately three acres of land to the Air Museum Land Company, LLC (the Museum). The lease term is for a period of thirty years at \$750 per month.

The Authority leases office space with month-to-month terms for \$636 per month and receives commissions on car rental revenue derived at the airport location. These revenues are included in Miscellaneous Income on the Statement of Revenues, Expenses, and Changes in Net Position. This calculation was changed in May 2017.

The anticipated future rental payments are \$194,048 yearly.

GATLINBURG AIRPORT AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 9 – RETIREMENT PLAN

The board of directors has adopted a simplified employee pension plan, which covers all eligible employees. The Authority's contributions are discretionary and are determined annually by the board of directors. Employees are eligible to participate after one full year of employment prior to the enrollment date of January 1. The Plan has no vesting requirements. No participant contributions were made to the Plan during 2017 or 2016. Retirement plan expense was \$13,916 for 2017 and \$11,602 for 2016.

NOTE 10 – LITIGATION AND LEGAL

The Authority is sometimes involved in eminent domain condemnation proceedings. The Authority deposits funds with the Court, based on the appraised value of the property, to be used for the acquisition of real estate. The amounts deposited, plus additional legal and other costs incurred since the date of deposit, are initially recorded on the statement of net position as a deposit for eminent domain condemnation until the order of possession is awarded from the court, at which time they are recorded as land and land easements. The property is not deeded to the Authority until the case has been settled. Any difference between the deposited funds and the final balance paid for the condemned property is adjusted in the year that the case is settled. There are no deposits at June 30, 2017 or 2016.

In the normal course of operations, the Authority may be involved in various other forms of litigation at various stages. In the opinion of the Authority's management, the potential loss on any claims and/or lawsuits pending against the Authority at June 30, 2017 and 2016 will not be significant to the Authority's financial statements.

SUPPLEMENTARY INFORMATION

GATLINBURG AIRPORT AUTHORITY, INC.
SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Years Ended June 30, 2017 and 2016

<i>Grantor or Pass-through Grantor</i>	<i>CFDA Number</i>	<i>Contract Number</i>	<i>Beginning <Accrued> Deferred</i>	<i>Cash Receipts</i>	<i>Expenditures</i>	<i>Ending <Accrued> Deferred</i>
EXPENDITURES OF STATE AND FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017						
State Awards						
Capital Contributions Grants						
Tennessee Department of Transportation	N/A	AERO-16-253-00	\$ 0	\$ 42,428	\$ 88,421	\$ (45,993)
Tennessee Department of Transportation	N/A	AERO-16-156-00	(2,218)	2,218	0	0
Tennessee Department of Transportation	N/A	AERO-13-258-00	0	30,730	30,730	0
Tennessee Department of Transportation	N/A	AERO-17-156-00	0	4,605	14,300	(9,695)
Tennessee Department of Transportation	N/A	AERO-12-175-00	0	12,190	12,190	0
Tennessee Department of Transportation	N/A	AERO-17-170-00	0	37,213	37,213	0
Total State Capital Contribution Grants			(2,218)	129,384	182,854	(55,688)
Federal Awards						
Capital Contributions Grants						
Airport Improvement Program	20.106	Z-08-20-0624	862	0	0	862
Airport Improvement Program	20.106	Z-08-20-0796	100	0	0	100
Airport Improvement Program	20.106	Z-02-00-8632	0	122,963	122,963	0
Total Federal Capital Contributions Grants			962	122,963	122,963	962
TOTAL STATE AND FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017			<u>\$ (1,256)</u>	<u>\$ 252,347</u>	<u>\$ 305,817</u>	<u>\$ (54,726)</u>

EXPENDITURES OF STATE AND FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016						
State Awards						
Capital Contributions Grants						
Tennessee Department of Transportation	N/A	AERO-13-258-00	\$ 0	\$ 45,541	\$ 45,541	\$ 0
Tennessee Department of Transportation	N/A	AERO-16-156-00	0	12,082	14,300	(2,218)
Tennessee Department of Transportation	N/A	AERO-12-155-00	0	9,583	9,583	0
Tennessee Department of Transportation	N/A	AERO-13-109-00	0	4,900	4,900	0
Tennessee Department of Transportation	N/A	AERO-15-234-00	0	18,000	18,000	0
Tennessee Department of Transportation	N/A	AERO-15-197-00	0	335,576	335,576	0
Total State Capital Contribution Grants			0	425,682	427,900	(2,218)
Federal Awards						
Capital Contributions Grants						
Airport Improvement Program	20.106	Z-08-20-0624	862	0	0	862
Airport Improvement Program	20.106	Z-08-20-0796	100	0	0	100
Airport Improvement Program	20.106	AERO-12-176-01	0	261,094	261,094	0
Airport Improvement Program	20.106	AERO-16-225-00	0	43,000	43,000	0
Total Federal Capital Contributions Grants			962	304,094	304,094	962
TOTAL STATE AND FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016			<u>\$ 962</u>	<u>\$ 729,776</u>	<u>\$ 731,994</u>	<u>\$ (1,256)</u>

GATLINBURG AIRPORT AUTHORITY, INC.
NOTE TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Years Ended June 30, 2017 and 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards includes the federal and state grant activity of the Gatlinburg Airport Authority, Inc. and is presented on the accrual basis of accounting for the years ending June 30, 2017 and 2016.

OTHER REPORTS

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INDEPENDENT ACCOUNTANT'S AUDIT REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Gatlinburg Airport Authority, Inc.
Sevierville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the net position of Gatlinburg Airport Authority, Inc. as of and for the years ended June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in financial position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Gatlinburg Airport Authority, Inc.'s basic financial statements, and have issued our report thereon dated September 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Gatlinburg Airport Authority, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gatlinburg Airport Authority, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Gatlinburg Airport Authority, Inc.'s internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weakness or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gatlinburg Airport Authority, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Governmental Auditing Standards.

Response to Findings

Gatlinburg Airport Authority, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs as item 2017-001. Gatlinburg Airport Authority, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hughes + Gammell CPA's

September 30, 2017

GATLINBURG AIRPORT AUTHORITY, INC.
SCHEDULES OF FINDINGS AND QUESTIONED COSTS
For the Years Ended June 30, 2017 and 2016

FINANCIAL STATEMENT FINDINGS

Internal Control Over Financial Reporting

2017-001 Segregation of Duties

Criteria or Specific Requirement

As noted in prior years, the Authority does not have adequate segregation of duties in certain areas of the accounting department. They now only have one in the accounting department but the following recommendation has been implemented. The control is much better but they have no way of increasing the separation of checks and balances.

Perspective

The condition exists primarily in the area of cash receipts and disbursements.

Context

In general, the same person should not be responsible for initiating, recording and reconciling any area of the accounting function.

Cause

The Authority now has one employee involved in initiating, recording and reconciling the accounting functions. It is difficult to segregate all primary financial duties with this limited number of personnel.

Effect

The result is the danger that errors could be made and/or fraud could be committed and not be detected.

Recommendation

We recommend the active participation of the board of commissioners as a compensating control. Since we understand that, due to the nature of funding, adding any additional personnel may not be feasible, we recommend that a member of the board of commissioners review the monthly cash receipts and disbursements included with the monthly bank statements and recorded in the cash receipts and disbursements journals. This review would include examining cancelled checks for items such as unusual payees, unusual endorsements, and unauthorized signers. As a further control, the bank statements could be mailed directly to the board member for review prior to being opened at the Authority. We also recommend that the Board review for reasonableness the monthly disbursements and collections compared to the budget for each budget category. These additional procedures could allow the board or management to possibly discover errors or fraud that would not otherwise to be detected in a timely manner.

GATLINBURG AIRPORT AUTHORITY, INC.
SCHEDULES OF FINDINGS AND QUESTIONED COSTS
For the Years Ended June 30, 2017 and 2016

Management's Response

Responsible Individuals: Airport manager and board of commissioners

Management Views

We agree that we should continue to strive for better segregation of duties in our accounting area. In an attempt to implement compensating controls, the airport manager reviews the unopened bank statements received by her directly from the bank. She also reviews the activity related to the checks and deposits, specifically looking for unusual or unfamiliar payees or transactions. In addition, the Board receives and reviews a summary of financial activity at the monthly board meetings.

Corrective Action

We will continue to work toward providing better segregation of duties where possible with the employee involved in the accounting functions. We will also continue to examine ways to utilize the board of commissioners as a means of providing additional compensating controls to reduce the risk of errors and fraud. We will also consider some restrictions or monetary limits related to the present levels of check signing authority in order to attempt to limit the amount of potential risk in the cash disbursements area.

GATLINBURG AIRPORT AUTHORITY, INC.
SCHEDULES OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Years Ended June 30, 2017 and 2016

Financial Statement Findings

<u>Prior Year Finding Number</u>	<u>Finding Title</u>	<u>Status/ Current Year Finding Number</u>
2016-001	Segregation of Duties Original Finding #2007-001	Repeated/ 2017-001